

March 20, 2007

**Testimony before the House Banking and Finance Committee  
Regarding HB 4103 (Security Freeze)**

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PIRGIM is part of a network of non-profit, non-partisan organizations that work on a wide variety of public interest issues such as preventing identity theft. In Michigan, we have worked on the issue of identity theft for several years. For example, we worked on the Identity Theft Protection Act of 2004, which made Michigan a leader in stopping identity theft by assisting law enforcement officials and also limiting the use of social security numbers. Last session, I worked with Senator Johnson and her staff to develop and pass one of the strongest breach notification laws in the country, requiring businesses to notify consumers if their personal information has been illegally accessed. Additionally, the State PIRGs have an extensive history of working on security freeze laws, going back to the first law passed in California. Since then we have worked on many of the 28 security freeze laws currently in place.

Each year, nearly 10 million Americans become victims of identity theft. This situation creates an incredible drain on the economy, costing businesses \$48 billion per year and consumers \$5 billion per year. Moreover, for the average consumer it takes 60 hours and \$1200 to address a fraudulent account created by identity thieves. These facts and figures of course do not begin to tell of the psychological toll of having your identity stolen.

Fortunately, there are ways to prevent these crimes from happening in the first place. The best way to prevent fraudulent accounts from being opened is to provide consumers the ability to "freeze" their credit report. A security freeze law lets consumers stop identity thieves from opening new accounts by locking access to their credit report using a personal identification number, much like the code we all use at any banking ATM. Whenever the consumer wishes to get new credit, they simply use their code to lift the freeze and unlock access to their credit report. Currently, 27 states and the District of Columbia all have security freeze laws for their citizens.

The best laws in the country have two characteristics that insure consumers actually use this preventative protection. They are cheap, and they are fast. Only then will

consumers choose to use this preventative ability. Additionally, a security freeze should not be intended solely for those who are already victims of identity theft because that would be similar to providing seatbelts only to those who have already had car accidents. The goal should be to prevent these crimes from happening in the first place, not simply to prevent them from happening again, and in order to achieve that goal the freeze must be easy to use.

In the last year, two exciting developments occurred regarding security freeze laws. Several states and the District of Columbia have now passed laws that require credit reporting agencies to temporarily lift a security freeze in 15 minutes or less. Previously, consumers would generally have to wait three days or more to temporarily lift their freeze, which is not nearly as convenient as nearly instantaneous access. The ability to quickly freeze and unfreeze your credit report is critical to insuring consumers use this law, and I am pleased to see HB 4103 incorporate this language.

The other development deals with the fee structure for security freezes. Ideally, being able to make sure your own personal information is secure should be completely free of charge. However, if fees must be assessed, then several other states have made significant strides in reducing those fees in the last several years either by eliminating the fee to initially place the freeze or by eliminating the fees associated with temporarily unlocking your credit report. While both of these scenarios greatly enhance the consumer's ability to use this preventive measure, removing fees associated with temporarily unlocking your credit report removes any financial disincentive to open new lines of credit, and does not penalize the consumer for making purchases. I am also pleased to see HB 4103 incorporate this fee structure.

I applaud Representative Angerer and her staff for diligently reviewing what other states have done and applying those lessons to this piece of legislation. By incorporating the ability for consumers to unlock their credit report within 15 minutes and eliminating fees to temporarily unlock their credit report, HB 4103 provides consumers with a strong security freeze law that will help prevent identity theft crimes from happening in the first place. For these reasons, PIRGIM supports HB 4103.



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### **HB 4103: Letting consumers put a padlock on their identity**

**Problem:** Identity theft continues to be the fastest growing crime in the country, affecting nearly ten million Americans each year. These crimes constitute a \$48 billion drain on the economy and cost consumers \$5 billion per year.

**Solution:** The best way to prevent identity theft crimes is to provide consumers with the ability to lock their credit report so that fraudulent accounts cannot be opened in the first place. This measure, commonly referred to as a security freeze, prevents identity thieves from opening new accounts and allows consumers to temporarily unlock their credit report using a personal identification number whenever they wish to have new credit issued.

#### **What Makes an Effective Freeze? Making It Cheap and Fast**

The best laws in the country have two common characteristics. They are cheap, and they are fast. Making this preventive protection against identity theft affordable and easy to use insures that consumers actually take advantage of the measure. Since the security freeze is preventive in nature and it is unclear who all is at risk of identity theft, it should be available to all consumers as well.

#### **Precedent**

Currently, 27 states and the District of Columbia provide their citizens with the ability to lock their credit report using a personal identification number and prevent identity thieves from opening fraudulent accounts. Laws in several other states allow consumers to unlock their credit report in 15 minutes or less, making it both easy for the consumer to use and business friendly.

HB 4103 creates a security freeze law for consumers that is both cheap and fast.

**Please Support HB 4103.**



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*Michigan Consumer Federation*

March 15, 2007

## **Security Freeze Platform for Consumers**

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Identity theft continues to be the fastest growing crime in America, victimizing nearly 10 million consumers each year. These crimes cost consumers \$5 billion per year, while businesses suffer from \$48 billion per year in losses.

The best way to prevent identity theft crimes is to provide consumers with the ability to lock their credit report so that fraudulent accounts cannot be opened in the first place. This measure, commonly referred to as a security freeze, prevents identity thieves from opening new accounts and allows consumers to temporarily unlock their credit report using a personal identification number whenever they wish to have new credit issued. Currently, 27 states as well as the District of Columbia have security freeze laws.

The best laws in the country are both cheap and fast so that consumers will choose to use this preventative measure against identity theft. A security freeze law for Michigan should include the following:

1. **No fees** – Several states give consumers the ability to place, temporarily lift, and remove a freeze free of charge. Fees prevent consumers from using this preventative measure, making it less effective.
2. **Temporary lifts occur in 15 minutes or less** – The most recent security freeze laws in other states require credit reporting agencies to temporarily lift the freeze within fifteen minutes, making it both convenient for consumers and businesses to use.
3. **The freeze can be placed initially using certified mail, phone, or secure electronic communication** – Allowing multiple methods to place the freeze makes it easier to use for consumers.
4. **The freeze should be placed within five days of the request** – 24 states currently require the freeze to start in five days or less, and a quick response can reduce the likelihood of new accounts being opened in the victim's name.

These components make the security freeze cheap and fast, making consumers more likely to use the measure and prevent fraudulent accounts from being opened in the first place. We applaud lawmakers in Michigan for addressing this serious issue with a policy that can protect consumers, and look forward to working with them to include these characteristics.

Sincerely,

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